

**BEFORE
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

DOCKET NO. 2018-318-E

In the Matter of:)	
)	REBUTTAL TESTIMONY OF
Application of Duke Energy Progress,)	LAURA BATEMAN
LLC for Adjustments in Electric Rate)	FOR DUKE ENERGY
Schedules and Tariffs)	PROGRESS, LLC

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **CURRENT POSITION.**

3 A. My name is Laura A. Bateman and my business address is 411 Fayetteville
4 Street, Raleigh, North Carolina. I am a Director of Rates and Regulatory
5 Planning, employed by Duke Energy Carolinas, LLC, testifying on behalf
6 of Duke Energy Progress (“DE Progress” or the “Company”).

7 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes, I did. I filed direct testimony and exhibits in this docket on November
10 8, 2018. I filed supplemental direct testimony exhibits on January 18,
11 2019.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond to certain accounting
14 and ratemaking adjustments proposed by the Office of Regulatory Staff
15 (“ORS”), and to respond to the ORS’s recommendations with regards to
16 deferred costs that would result in the Company not being able to fully
17 recover its prudently incurred costs. I also respond to several
18 recommendations by Nucor witnesses LaConte and Zarnikau related to the
19 Company’s revenue requirement.

1 **Q. DOES YOUR TESTIMONY INCLUDE ANY EXHIBITS?**

2 A. Yes, I have included two exhibits. Bateman Rebuttal Exhibit 1, which is an
3 informational filing and a revision of the original Bateman Exhibit 1 filed
4 with my direct testimony. Bateman Rebuttal Exhibit 1 shows the
5 Company's revised revenue requirement incorporating the Company's
6 adjustments filed in its supplemental filing and the Company's rebuttal
7 position in this case. Bateman Rebuttal Exhibit 3 shows the proposed
8 EDIT Rider updated for the change in cost of debt supported in the
9 rebuttal testimony of Company witness Sullivan.

10 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER**
11 **YOUR DIRECTION AND SUPERVISION?**

12 A. Yes, these exhibits were prepared under my supervision.

13 **II. RESPONSE TO THE OFFICE OF REGULATORY STAFF**
14 **ACCOUNTING ADJUSTMENTS**

15 *Adjustments Not Opposed*

16 **Q. ARE THERE ANY ACCOUNTING ADJUSTMENTS WHERE THE**
17 **COMPANY AND THE ORS AGREE BASED ON THE COMPANY'S**
18 **FILING MADE ON NOVEMBER 8TH, 2018?**

19 A. Yes, there are thirteen accounting adjustments where the Company and the
20 ORS agree based on the filing the Company made on November 8, 2018.

21 #1 – Annualize Retail revenues for current rates

22 #2 – Update fuel costs to approved rate and other fuel related adjustments

23 #3 – Adjust Other Revenue

- 1 #5 – Eliminate unbilled revenues
- 2 #6 – Adjust for cost recovered through non-fuel riders
- 3 #9 – Annualize property taxes on year end plant balances
- 4 #10 – Adjust for new depreciation rates
- 5 #12 – Remove NCEMPA Acquisition Adjustment
- 6 #13 – Remove expiring amortization credits from test year
- 7 #16 – Adjust for coal inventory
- 8 #24 – Levelize nuclear refueling outage costs
- 9 #26 – Adjust aviation expenses
- 10 #34 – Adjust for tax rate change

11 **Q. ARE THERE ADDITIONAL ADJUSTMENTS RECOMMENDED**
12 **BY THE ORS WITH WHICH THE COMPANY AGREES?**

13 A. Yes, there are 5 recommended adjustments by the ORS with which the
14 Company agrees as detailed below. These adjustments reflect the update of
15 estimates to actuals and additional adjustments to the Company's cost of
16 service, some of which were reflected in Bateman Supplemental Exhibit 1.
17 Bateman Rebuttal Exhibit 1 incorporates these adjustments, which are
18 listed below.

- 19 #8 – Annualize depreciation on year end plant balances
- 20 #11 – Adjust for post test year additions to plant in service
- 21 #23 – Update benefit costs
- 22 #31 – Adjust vegetation management expenses
- 23 #37 – Adjust for Allocation of PUC License Tax Expense

ORS Adjustments Opposed by the Company

Q. PLEASE SUMMARIZE THE ORS'S RECOMMENDATION WITH REGARD TO DEFERRALS.

A. The ORS makes several recommendations with regards to deferred costs that would in effect deny the Company recovery of prudently incurred costs. These recommendations are primarily discussed in the testimony of ORS witness Payne. There are a number of deferrals in this case, which include carrying costs. Carrying costs are necessary to ensure that the Company recovers the full value and effect of the deferral. No one contests the prudence of the expenses in the deferrals though ORS devalues the deferrals by disallowing carrying costs, or a return, and, in most cases, significantly extending the recovery period for the deferred costs.

First, the ORS recommends that the Company be disallowed the return on the incremental costs, which the Company has deferred in a regulatory asset on its books, during the deferral period. ORS witness Payne offers no justification for the disallowance other than citing the portion of the deferral order that states that "(s)uch relief will not prejudice the right of any party to address the prudence of such costs in a subsequent rate proceeding." If ORS witness Payne alleges that the deferred costs were imprudent, he offers no argument explaining such allegation in his testimony. Second, the ORS recommends that the Company be disallowed a return during the amortization period for the portion of the regulatory

1 assets that relate to operating expenses. Finally, in the testimony of ORS
2 witness Morgan, the ORS recommends unnecessarily long recovery
3 periods for the deferred costs, increasing the amount of disallowance to
4 the Company due to the cost of money.

5 **Q. WHICH ADJUSTMENTS ARE IMPACTED BY THE ORS**
6 **RECOMMENDATIONS REGARDING DEFERRALS?**

7 A. The differences in the Company's position and the ORS's position on the
8 adjustments listed below are related to the treatment of deferrals.

9 #17 – Adjust previously deferred amounts – Harris COLA, GridSouth,
10 Fukushima/CyberSecurity, 2014 Storms

11 #18 - Amortize deferred environmental costs

12 #19 – Amortize Deferred Cost Balance Related to SC AMI

13 #25 - Amortize rate case costs

14 #30 - Adjust for Customer Connect additional expense and deferral

15 #35 – Adjust deferred cost balance related to SC Grid

16 The Company and the ORS also have additional areas of disagreement on
17 Adjustments #18, #25, and #30, which I address later in my testimony.

18 **Q. DOES THE COMPANY OPPOSE THESE ORS**
19 **RECOMMENDATIONS REGARDING DEFERRALS?**

20 A. Yes. The Company strongly opposes these recommendations as I explain
21 below and as further explained in the rebuttal testimonies of Company
22 witnesses Ghartey-Tagoe, Wright and Hevert.

1 ORS witness Payne recommends separating the deferred balances
2 into two categories – deferred operating expenses (including O&M,
3 depreciation expense and property taxes on plant in-service) and deferred
4 capital costs (which, under his definition, only includes deferred return on
5 capital investments). ORS witness Payne then goes on to recommend that
6 the Company be disallowed a return on the deferred operating expenses
7 over the entire amortization period, in some cases under the ORS
8 recommendation, as long as 15 years. He argues that the Company would
9 not have earned a return had the costs not been deferred. In other words,
10 had the Company collected the costs from customers in the period which
11 the costs had been incurred, the Company would have no financing
12 requirements and would not need to earn a return. First his logic is flawed
13 because these costs are incremental and could not have been collected
14 from customers in the period in which they were incurred. Furthermore,
15 this logic is misplaced and inconsistent with other carrying costs that the
16 ORS is willing to accept when they are beneficial to customers, as
17 explained below. Moreover, stretching out cost recovery to life of plant as
18 the ORS recommends is a capital-based concept. It is inappropriate to treat
19 costs like capital costs in terms of length of recovery, but not allow them
20 to be placed into rate base or collect carrying costs like undepreciated
21 capital would receive.

22 Applying ORS logic in an even-handed manner, if the Company
23 must accept the weight of carrying costs on expenses to be paid by

1 customers, then it should also accept the benefit of carrying costs which it
2 was otherwise willing to pay customers. The inequity of the ORS
3 argument is clear when one considers deferred income taxes. Income taxes
4 are an operating expense. Deferred income taxes result from the timing
5 difference from when the Company pays the cash for the expense and
6 when the costs are recovered in customer rates. The only difference is that
7 the amounts are collected in rates before the Company pays the cash,
8 resulting in a regulatory liability, instead of a regulatory asset. In order to
9 be consistent in its position, the ORS would need to also recommend
10 removing the deferred tax liabilities from rate base since these are the
11 result of deferred operating expenses. For DE Progress, the accumulated
12 deferred income tax plus excess deferred income tax balances included as
13 a reduction to rate base in this case are \$414 million. Removing these
14 items from rate base would result in a 27 percent increase in rate base. If
15 the ORS were to consistently apply its logic, it would be a significant
16 detriment to customers if taken to its logical conclusion.

17 The appropriate and more equitable treatment, and the one
18 proposed by the Company, is to continue to include the deferred taxes in
19 rate base recognizing that the Company has additional cash that can be
20 used to finance utility investments and customers should receive a return
21 on the Company's use of that cash. In the same way, the regulatory assets
22 resulting from the Commission approved deferrals, including the deferred
23 operating expenses, are appropriate to include in rate base because there is

1 a timing difference between when amounts are paid and when they are
2 collected from customers. During this time, the Company must incur
3 additional financing costs related to the cash it has borrowed for the
4 amounts it has expended but not yet collected from customers.

5 In his testimony, ORS witness Payne references that the National
6 Association of Utility Commissioners (“NARUC”) Rate Case and Audit
7 Manual states that regulatory assets and other deferrals should be
8 examined to determine if the deferred costs are appropriate to be included
9 in rate base. The manual says nothing about splitting the regulatory assets
10 between deferred operating expenses and deferred capital costs. I have
11 never heard of this concept before and, as far as the Company can tell, the
12 ORS developed this idea in isolation without any supporting industry
13 manuals, documentation or precedent. The NARUC manual that ORS
14 witness Payne refers to states:

15 “In looking at the nature of the deferrals, the auditor should
16 consider whether the deferral is appropriate for inclusion in rate
17 base. For instance, is the utility deferring certain fuel or purchased
18 power expenses under a mechanism that is approved by the
19 Commission allowing for dollar-for-dollar recovery of those
20 costs?” (Pages 22-23)

21 Consistent with what this manual appears to be referring to, the Company
22 does not and is not proposing in this case to earn a return on its deferred
23 fuel balances. The deferred balances at question in this case are very

1 different, and both the Company and the ORS have proposed multi-year
2 recovery periods. While the Company would still disagree, if the ORS
3 were proposing recovery of the deferred costs through a one-year rider,
4 their proposed rate base treatment would at least be more logical and
5 consistent with the NARUC manual. That is not the case.

6 The ORS recommendations discussed above suggest a business
7 can borrow money for free. However, investors do not provide interest free
8 loans.

9 **Q. HOW WOULD YOU SUMMARIZE THE COMPANY'S POSITION**
10 **ON RETURNS ON DEFERRALS?**

11 A. Deferrals, by definition, recognize that the Company is incurring a cost
12 that is not currently recovered in customer rates. The Company is
13 incurring costs related to these deferrals. Those costs, whether designated
14 as capital or operating expense for accounting purposes, require cash. That
15 cash must be obtained from the Company's debt and equity investors. And
16 those investors require interest, or a return, on the cash they have invested
17 in the Company. These financing costs (the return on the deferred costs)
18 are a real cost that the Company incurs and to disallow recovery of these
19 costs during the deferral period or the amortization period would be to
20 disallow prudently incurred costs.

1 **Q. WHAT IS YOUR RESPONSE TO THE AMORTIZATION PERIOD**
2 **LENGTHS PROPOSED BY ORS WITNESS PAYNE AND NUCOR**
3 **WITNESS LACONTE?**

4 A. The chart below shows the deferrals for which either ORS witness Payne
5 or Nucor witness LaConte recommend longer amortization periods than
6 what the Company recommends.

		Deferred Balance (\$MM)	Length of Amortization in years		
Adj #	Adjustment	Company Position	Company Position	ORS Position	Nucor Position
SC -1700	Harris COLA	\$6.7	5	8	48
SC -1700	Fukushima/CyberSecurity	\$5.5	5	5	38
SC -1800	Deferred Environmental Costs	\$46.5	5	5	20
SC -1900	SC AMI (new meters)	\$1.6	3	15	
SC -3500	SC Grid	\$2.2	2	5	

7 While exact amortization periods are subjective, there needs to be a
8 balance and consideration of both the impact on customer rates and the
9 impact on the Company's cash flow. Given the deferred balances, the
10 amortization periods proposed by ORS witness Payne and especially those
11 proposed by Nucor witness LaConte are excessive and unnecessarily long
12 for these deferrals. In addition, I will point out that as in DEP's last rate
13 case, the Company agreed to delay beginning the amortization on both the
14 Harris COLA and Fukushima/Cyber Security deferred balances. In this
15 case, the ORS recommends an 8-year amortization period for the Harris
16 COLA costs because that is the length of time over which the costs were

1 incurred. However, this recommendation fails to recognize that absent the
2 settlement in the last case, the Company would have begun amortizing
3 these costs starting January 1, 2017. Had the Company used an 8-year
4 period to amortize the costs at that point, there would only be five and a
5 half years remaining in the amortization period by the time new rates are
6 effective in this case. Therefore, even using the ORS's logic, the
7 Company's proposed amortization period is more appropriate. Finally,
8 since the ORS has recommended to disallow the return during the
9 amortization period on a portion of all the deferrals, the longer
10 amortization periods exacerbate the disallowance. Again, the logic is
11 contradictory. ORS doesn't support a return because the costs were not
12 originally classified as capital, but then turns around and treats them like
13 capital by proposing the AMI deferral be recovered over the life of the
14 assets. Therefore, the Company opposes these recommendations.

15 **Q. PLEASE DESCRIBE THE COMPANY'S RESPONSE TO THE**
16 **REMAINING ORS PROPOSED ADJUSTMENTS.**

17 A. The Company opposes the ORS recommendations on the remaining
18 adjustments. The Company's positions on the remaining ORS adjustments
19 are explained below.

20 **Adjustment #18 – Amortize deferred environmental costs**

21 The Company opposes the adjustments recommended by the ORS. First,
22 the ORS recommends disallowing a portion of the returns on the
23 components of the deferral relating to capital investments at operating

1 plants. The punitive nature of the adjustment recommended by Witness
2 Payne to disallow the return on the deferred costs for this component
3 during the deferral period and not earn a return during the time period
4 when the costs are being recovered (amortization period) is discussed
5 above. The Company also vigorously opposes the ORS recommendations
6 to disallow certain coal ash related costs for the reasons set forth in the
7 rebuttal testimony of Company witnesses Kerin and Wright.

8 **Adjustment #20 – Normalize for storm costs**

9 The Company's pro forma adjustment normalizes storm restoration costs
10 to the average level of costs the Company experienced over the past ten
11 years. However, ORS witness Morgan recommends eliminating the
12 expenses in the highest and lowest years to use an eight-year average
13 expense level. The Company does not oppose this component of the ORS
14 adjustment. However, the ORS adjustment also removes the inflation
15 impact to storm costs, which is not described in ORS's testimony and has
16 a larger impact on the average. The Company does oppose this component
17 of the ORS's adjustment, as it is unreasonable and ignores the current
18 costs implicated in addressing storms.

19 The Company's adjustment adjusts each storm cost year included
20 in the ten-year average to be comparable to the test year on an inflation
21 adjusted basis. This is appropriate because as with the costs of other goods
22 and services, the costs associated with storm restoration – e.g., the costs
23 for contract labor, such as line workers and tree professionals, materials,

1 and staging and logistics – have increased significantly in the last ten
2 years. In fact, the average annual inflation rate calculated by the Company
3 for the ten years beginning in 2008 is 1.422 percent per year, or 14.22
4 percent over the ten-year period. This adjustment is more than reasonable
5 given that DE Progress’ contract labor costs alone have increased 25
6 percent from 2008 to 2017.¹ By removing the Company’s inflation
7 adjustment, the ORS seems to be implying that the Company should be
8 able to hire contractors to work on storm restoration in 2019 for the exact
9 same hourly rate it paid them in 2008. This is not realistic, and this portion
10 of the ORS adjustment should be rejected by the Commission. Bateman
11 Rebuttal Exhibit 1, Page 3, Line 20 updates this adjustment to reflect the
12 ORS’s recommendation to use an eight-year average, but continues to
13 include inflation adjusted costs in the average.

14 **Adjustment #21 – Annualize O&M non-labor expenses**

15 The Company annualized Test Period O&M expenses (excluding fuel,
16 purchased power, and labor costs) to reflect the change in costs that
17 occurred during the test period. ORS witness Major proposes to exclude
18 this adjustment because “it is based on projected and estimated data rather
19 than known and measurable expenses.” This is not true and the Company
20 maintains that its adjustment is appropriate. First, the purpose of the
21 Company’s proposal is not to project O&M expenses, but instead to

¹ This percentage is based on on-system contractor rates for 2008 and 2017. These are the contractors that DE Progress uses on its system on a regular basis, and relies upon when there is a storm event.

1 annualize the impacts of inflation to an end of test period level. The
2 adjustment takes actual known and measurable inflation metrics
3 (Consumer Price Index and Producer Price Index) and compares the
4 average of the test period to the end of test period metrics. These metrics
5 for the 2017 test period are historic, known and measurable, and publicly
6 available from the U.S. Bureau of Labor Statistics. This adjustment is very
7 similar to the customer growth adjustment which the ORS has not
8 rejected. The customer growth adjustment compares the average number
9 of customers during the test period to the end of test period number of
10 customers in order to annualize the impacts of customer growth to an end
11 of test period level. Both adjustments annualize impacts – one for
12 customer growth and one for inflation – and both are appropriate to
13 include.

14 **Adjustment #22 – Normalize O&M labor expenses**

15 The Company's adjustment adjusts the wages and salaries and related
16 employee benefit costs to reflect annual levels of costs as of July 1, 2018
17 and also reflects changes in related payroll taxes. The ORS recommends
18 updating the salary allocator for DEC to the same date as the O&M labor
19 expense, July 1, 2018, and the Company does not oppose this portion of
20 the ORS recommendation. However, the Company does not agree with
21 ORS witness Major's recommendation to remove 50 percent of the
22 Company's long and short-term incentive ("LTI" and "STI") program
23 costs for the reasons discussed by Company witness Metzler.

Adjustment #25 – Amortize rate case costs

The Company opposes this adjustment recommended by ORS witness Payne to disallow the Company to earn a return on the deferred costs during the deferral period and not earn a return during the time period when the costs are being recovered is discussed above. The Company also opposes ORS witness Major's recommendation to disallow certain rate cases expenses due to alleged insufficient documentation to support the costs. The expenses being challenged are legal services provided by outside counsel which are billed to the Company using an e-billing system. Upon contacting the ORS to determine the level of detail they would need to determine the documentation was sufficient, the Company was informed that only a paper invoice would suffice. An e-billing system has been utilized at Duke for the last several years. It is a commonly used platform and not unusual for a large company to utilize for administrative efficiency. Instead of paper invoices, outside vendors are given login credentials to access the system where they input all relevant billing information (date, matter, rate, hours, description of work performed, etc.) directly into the system. Once the information is entered, the approving attorney is prompted to access the system, review the information and approve or deny the invoice. At all times, the information is provided, communicated and stored electronically. When a data request is made to review the billing data, the system exports the data to Microsoft Excel, which is supplied as the response. For legal invoices, the descriptions of

1 work performed are reviewed for privileged information before providing.
2 During discussions with the ORS, the Company offered to provide
3 screenshots of the data in the system, redact the privileged information by
4 hand before submitting to them or have our vendors sign affidavits
5 attesting that they have reviewed the information the Company is
6 providing to the ORS and that it is true and accurate. At the time of this
7 testimony being finalized, the Company has not heard back from the ORS
8 but notes that its expenses were reasonably and prudently incurred and no
9 justifiable reason for disallowance has been given.

10 **Adjustment #29 – Adjust O&M for executive compensation**

11 The ORS agrees with the Company's adjustment to remove 50 percent of
12 the compensation of the four Duke Energy Executives with the highest
13 level of compensation allocated to DE Progress in the test period.
14 However, since ORS witness Major proposed to remove 50 percent of
15 incentives for all employees in adjustment #22, he added back the 50
16 percent of incentives for the top four executives in this adjustment. The
17 Company does not agree with ORS witness Major's recommendation
18 related to the incentive pay components for all employees, including
19 linemen, call center representatives, etc., for the reasons discussed by
20 Company witness Metzler. However, the Company excluded 50 percent of
21 the compensation, including incentives, of its top four executives in its
22 original filing, and I have kept that exclusion in this adjustment in

1 Bateman Rebuttal Exhibit 1, rather than moving it to Adjustment #22 as
2 ORS witness Major has.

3 **Adjustment #30 – Adjust for Customer Connect Project**

4 The Company has included costs related to its Customer Connect project
5 which will replace the Company's current billing system and is currently
6 planned to be placed in service in 2021 and 2022. Due to the nature of the
7 costs, a significant portion of the spending between now and the in-service
8 date will be O&M. The ORS has made two recommendations to the
9 Company's adjustment which the Company opposes. The Company's
10 opposition to the ORS recommendations regarding deferrals are discussed
11 earlier in my testimony. In addition, the ORS recommends removing the
12 Company's proposed increase to O&M. ORS witness Payne states these
13 costs should be removed because they are not known and measurable. As
14 stated in my direct testimony, these costs are based on signed contracts.
15 Portions of the costs are based on amounts specified in the contracts and
16 the remaining amount can be reasonably estimated based on the activities
17 the Company is obligated to in the contract. This is comparable to O&M
18 for a new generation plant. When a new plant is placed in service, the
19 Company is obligated to operate and maintain that plant and the
20 Company's obligation is known and can be reasonably measured. The
21 exact level of O&M is not known, but an approximate level can be
22 reasonably estimated based on experience operating similar plants. To
23 allow a utility no level of O&M in rates for the new plant would be

1 unreasonable. Similarly, to allow the Company no level of O&M, or solely
2 the amount in the test period of \$160,000, for Customer Connect would
3 also be unreasonable. At a minimum, the Company's actual O&M in 2018
4 of \$923,000 should be allowed. However, the Company believes its
5 proposed amount of \$1,387,000 is reasonable and should be allowed.
6 Company witness Hunsicker, in both her direct and rebuttal testimony,
7 details the benefits the system will provide to customers and the
8 Company's commitment to incur the costs through signed contracts.
9 Removing from this case the operating expenses needed to implement the
10 project is the same as denying the Company the opportunity to recover
11 those costs for a new billing system which no one has contested.

12 I will note that an alternative that would still allow the Company
13 to recover these costs is for the Commission to approve a continuation of
14 the deferral of the incremental operating expenses incurred related to the
15 Customer Connect project, including a carrying charge on the deferred
16 costs, until the Company's next general rate case. This would be a
17 reasonable alternative to the Company's adjustment related to Customer
18 Connect and would be similar to the treatment agreed to in partial
19 settlement and approved by the North Carolina Utilities Commission in
20 the Company's recent North Carolina rate case.²

² Order dated June 22, 2018, in North Carolina Utilities Commission Docket No. E-7 Sub 1146.

1 **Adjustment #32 – Synchronize interest expense with end of period**
2 **rate base**

3 While the amounts calculated by the Company and ORS for this
4 adjustment are different based on other areas of disagreement, we agree on
5 the concept of and the method used to calculate this adjustment.

6 **Adjustment #33 – Adjust 1/8 O&M for accounting and pro forma**
7 **adjustments**

8 The Company's rate base is adjusted to include the additional working
9 capital required as a result of the additional O&M expenses the Company
10 is proposing in this proceeding. ORS proposes an adjustment to working
11 capital which reflects ORS adjustments to O&M expenses. To the extent
12 that Company does not agree with certain of the ORS's proposed O&M
13 expense adjustments for the reasons discussed in my testimony, the
14 Company disagrees with the ORS's amount for this adjustment. However,
15 we agree on the concept of and the method used to calculate this
16 adjustment.

17 **Adjustment #36 – Remove Certain Expenses**

18 The Company opposes this adjustment. The ORS recommends removing
19 O&M expense of \$875,000, from the test period for costs ORS witness
20 Major characterized as "sponsorships, lobbying expenses, service awards,
21 advertising, coal ash litigation costs and other miscellaneous items." The
22 Company reviewed the same transactions that the ORS reviewed and has
23 agreed to remove \$97,000 from O&M expense. After the Company's

1 adjustment, there are no lobbying costs or image-building advertising
2 costs in this case.

3 However, the items in the ORS's adjustment the Company
4 disagrees with removing in this proceeding primarily fall into the
5 following categories:

6 1. **Employee incentives, service & safety awards, and any costs to**
7 **recognize and reward the Company's employees who serve our**
8 **customers.** The appropriateness of these costs is addressed in the
9 rebuttal testimony of Company witness Metzler.

10 2. **Lineman's Rodeo costs.** The Lineman's Rodeo is an industry
11 event where linemen share best practices and compete in events
12 where they have the opportunity to display and hone their skills as
13 linemen to provide reliable service (ex. Pole top rescue, proper
14 insulation techniques) to the benefit of our customers. Prior to the
15 event, linemen are training to prepare for the event, which has the
16 benefit of additional preparation for their jobs. The appropriateness
17 of these costs is addressed in the rebuttal testimony of Company
18 witness Metzler.

19 3. **Organization dues.** These membership dues for local South
20 Carolina Chambers of Commerce and other local South Carolina
21 organizations that promote economic development in South
22 Carolina, such as the Historic Marion Revitalization Association
23 and the Darlington Downtown Revitalization Association, are

1 appropriately included in the case. Chamber of Commerce
2 organizations promote policies, initiatives and principles that
3 benefit all citizens through economic investments, job creation and
4 retention, strong schools, and attracting and retaining business
5 development. As the Greater Florence Chamber of Commerce puts
6 it, its mission is to “Promote and enhance a favorable business
7 climate and improve the quality of life to make Florence the best
8 community in which to live and operate a business.” Membership
9 in the various Chambers of Commerce and other Civic
10 organizations is an integral part of managing our business
11 responsibly on behalf of our customers and keeping in contact with
12 a very important segment of our customers.

13 Funds paid to these organizations that are not specified as a
14 donation or lobbying on the invoice are generally in support of
15 business, economic development and the communities we serve. It
16 is reasonable, as explained by Witness Gharthey-Tagoe, that the
17 Company participates in these organizations to best serve the
18 communities in which our customers live and in which we operate.

- 19 **4. Costs that are not 100 percent related to South Carolina.** The
20 ORS removed several transactions that it labeled as “not related to
21 SC.” For example, the ORS removed registration fees paid to the
22 North Carolina Department of Motor Vehicles (“DMV”) for
23 transmission vehicles. However, the ORS made no adjustment to

1 accept the full cost of fees paid to the South Carolina DMV that
2 were also allocated between North Carolina and South Carolina.
3 Transmission assets are considered system assets and the costs to
4 maintain those assets, including registration fees on company
5 vehicles, are appropriately allocated to all customers based on peak
6 demand. Therefore, the Company allocated the registration fees for
7 transmission vehicles paid to both the North Carolina and the
8 South Carolina Departments of Motor Vehicle to all customers
9 based on a transmission allocator. On other costs that could be
10 direct assigned by state, such as bill inserts, the ORS
11 recommended removing the costs for North Carolina bill inserts
12 that were allocated between North Carolina and South Carolina,
13 but did not recommend direct assigning 100 percent of the costs
14 for South Carolina bill inserts to South Carolina. If the ORS had
15 direct assigned both North Carolina and South Carolina bill insert
16 costs, it likely would have ended up in a similar place as the
17 Company achieved through applying an allocator based on number
18 of customers. The key point is that the ORS is focused on what
19 costs South Carolina customers should not pay, but ignores the
20 effect of that same logic on what costs South Carolina customers
21 should bear under that same theory.

22 5. **Timing differences.** The Company believes that the 2017 test year
23 amount requested for recovery in this proceeding is representative

1 of the Company's expenses for a 12-month period. The ORS
2 removed various transactions due to the invoice date and the date
3 the invoice was paid being in different calendar years. For
4 example, if the invoice was dated 2016 and paid in 2017 the ORS
5 removed the expense from the test year. However, this ignores the
6 fact that the Company uses accrual accounting. When the expenses
7 are incurred, the Company will accrue an estimated expense if the
8 amount meets a certain threshold per the Company's accrual
9 policy. Then, when the invoice is received and processed, which
10 may be the following calendar year, the Company reverses the
11 accrual and books the actual expense. This suggests the ORS
12 believes unless an expense is paid in the year it is incurred it
13 should not be recovered from customers, ignoring the concept of
14 accrual accounting in the removal of these expenses.

15 6. **Litigation expenses.** The Company opposes ORS witness Major's
16 recommendation to remove litigation expenses in this adjustment
17 for the reasons set forth in the rebuttal testimony of Company
18 witness Wright.

19 **Adjustment #40 – Customer Growth**

20 While the amounts calculated by the Company and ORS for this
21 adjustment are different based on other areas of disagreement, we agree on
22 the concept of and the method used to calculate this adjustment.

Remaining Adjustments Opposed by the Company

Q. OF THE REMAINING ADJUSTMENTS THAT THE COMPANY OPPOSES, WHICH ONES ARE RESPONDED TO BY OTHER COMPANY WITNESSES?

A. The following ORS adjustments from Audit Exhibit KLM-2, are responded to by other Company witnesses in rebuttal testimony

Debt cost rate of 4.06 percent

The Company has updated the cost of debt to 4.16 percent, reflecting the cost of debt financing through December 2018. This adjustment is further discussed in the rebuttal testimony of Company witness Sullivan.

Change in return on equity from 10.50 to 9.30 percent

The Company opposes this adjustment for the reasons set forth in the rebuttal testimony of Company witness Hevert.

Adjustment #15 - Adjust reserve for end of life nuclear costs

The Company opposes the ORS's position on this adjustment for the reasons set forth in the rebuttal testimony of Company witness Henderson.

Adjustment #28 – Adjust for credit card fees

The Company opposes the ORS's position on this adjustment for the reasons set forth in the rebuttal testimony of Company witness Quick.

Adjustment #38 – Adjust for Ongoing Payment Obligation

The Company opposes the ORS's position on this adjustment for the reasons set forth in the rebuttal testimony of Company witness Coppola.

Adjustment #39 – Adjust for Nuclear Supplies and Materials
Adjustment

The Company opposes the ORS's position on this adjustment for the reasons set forth in the rebuttal testimony of Company witness Henderson.

III. RESPONSE TO NUCOR RECOMMENDATIONS

Excess Deferred Income Taxes ("Edit") Rider

Q. DO YOU AGREE WITH NUCOR WITNESS LACONTE'S PROPOSAL RELATED TO THE COMPANY'S PROPOSED EDIT RIDER.

A. No. The Company has proposed to return excess deferred income taxes ("EDIT") and deferred revenue to customers in a manner that provides meaningful benefits to customers over a long period of time while preserving the Company's credit metrics. The table below summarizes the Company's proposal.

	Deferred Amounts as of 12/31/2018	Proposed Amortization Period
Protected EDIT	\$147 million	ARAM period
Unprotected property related EDIT	\$58 million	20 years
Unprotected non-property related EDIT	\$5 million	5 years
Deferred revenue, net of DERP Asset	\$2 million	5 years

Nucor witness LaConte recommends shortening the amortization period for the property related unprotected EDIT from 20 years to 5 years and also proposes shortening the amortization period for the deferred revenue from 5 years to 2 years, claiming that the periods proposed by the

1 Company are unnecessarily long. This is not true. Company witness
2 Sullivan, in his direct testimony, discusses credit rating agency action
3 resulting from the federal Tax Cuts and Jobs Act (“TCJA”) and the
4 importance of constructive regulatory orders on this issue in preserving the
5 Company’s credit ratings. This Commission has acted constructively both
6 in its April 25, 2018 order in Docket 2017-381-A and in its December 21,
7 2018 order in Dockets 2017-207-E, 2017-305-E, and 2017-370-E. In the
8 December 21, 2018 order, the Commission authorized South Carolina
9 Electric & Gas to return property-related unprotected EDIT over a similar
10 period as what DE Progress is proposing in this case. The Company
11 believes the Commission should continue its constructive treatment of this
12 issue in the current case and reject Nucor witness LaConte’s
13 recommendation. Company witnesses Sullivan and Panizza respond
14 further to Nucor witness LaConte’s recommendation related to the EDIT
15 rider.

16 **Q. PLEASE DESCRIBE NUCOR WITNESS LACONTE’S**
17 **RECOMMENDATION CONCERNING THE DISTRIBUTED**
18 **ENERGY RESOURCES PROGRAM (“DERP”) BALANCE.**

19 A. Witness LaConte recommends removing the DERP balance from the
20 EDIT rider. To clarify, the Company is not requesting recovery of the
21 DERP regulatory asset through the EDIT rider, but instead is requesting
22 that the Commission approve the use of a portion of the deferred revenue
23 benefit to offset the DERP regulatory asset or deferred costs, and then the

1 Company would flow the remaining deferred revenue back to customers
2 through the EDIT rider.

3 Witness LaConte also raises legal questions about the Company's
4 proposal. I'm not a lawyer, but it is my understanding that we are not
5 violating any legal requirement or settlement in our proposal. We are not
6 asking for any recovery of DERP costs through the EDIT rider. We are,
7 however, asking to use a portion of the benefits from the TCJA to offset
8 deferred DERP costs. The Commission required us to address the TCJA
9 in this case, which we are doing, and in addressing the TCJA, we have
10 made this proposal.

11 **Q. DO YOU THINK IT IS REASONABLE FROM A RATEMAKING**
12 **PERSPECTIVE FOR A COMMISSION TO ALLOW A UTILITY TO**
13 **USE BENEFITS FROM THE TCJA TO OFFSET REGULATORY**
14 **ASSETS/DEFERRED COSTS?**

15 A. Yes. In fact, in his direct testimony, Company witness Sullivan describes
16 two examples of just that. In Alabama, the commission allowed Alabama
17 Power to use a portion of the TCJA benefits to offset deferred fuel costs.
18 In Florida, the commission allowed Duke Energy Florida to use a portion
19 of the TCJA benefits to offset deferred costs related to Hurricane Irma. In
20 my opinion, it is a reasonable approach to use a portion of the benefits
21 from the Tax Act to offset deferred costs, which customers would
22 otherwise have to pay in the future.

Post-Test Year Plant Adjustment

Q. DO YOU AGREE WITH NUCOR WITNESS LACONTE'S RECOMMENDATION REGARDING THE POST-TEST YEAR ADDITIONS TO PLANT IN SERVICE ADJUSTMENT?

A. No, I do not. Witness LaConte recommends that the Commission not allow DEP to include its post test year additions adjustment. Inclusion of this adjustment in a base rate proceeding has been a long-standing practice in South Carolina. This adjustment has been included in every investor owned electric utility rate case as far back as 1988. DEP has included this adjustment in its last two rate cases (1988 and 2016), ³DEC has included the adjustment in its last four rate cases (1991, 2009, 2011 and 2013)⁴ and SCE&G has included the adjustment in both its 2004 and 2007 rate cases.⁵ What Witness LaConte is recommending would be a deviation from what has been the general practice in electric utility rate cases in South Carolina for at least the past thirty years.

In her testimony, Witness LaConte states that, "the utility is generally free to choose the test year it wants." My understanding is that this is not the case in South Carolina and instead utilities must use a historic test year (26 S.C. Code Regs. 103-823) and are not allowed to use a future test period. She also says the post test year adjustment should not be allowed due to what she calls the "Matching Principle." In principle,

³ See Dockets 88-11-E and 2016-227-E

⁴ See Dockets 91-216-E, 2009-226-E, 2011-271-E and 2013-59-E

⁵ See Dockets 2004-178-E and 2007-229-E

1 the test year costs used to establish rates should approximate the costs the
2 utility will experience once those new rates are effective. Instead of using
3 a future test period, the South Carolina method of using a historic test
4 period with an adjustment for post test year plant additions reasonably
5 approximates the rate base level for the period when new rates are
6 effective. For example, the rate base in DEP's 2016 rate case was \$1.3
7 billion. New rates were effective starting January 1, 2017. The actual per
8 books rate base in the quarterly report filed with this Commission in
9 Docket 2006-270-E for the twelve months ended June 30, 2017, just 6
10 months after new rates were effective, was \$1.4 billion. As a result, South
11 Carolina's historic practice of allowing updates for post-test year plant
12 additions has generally had the effect of providing electric utilities an
13 opportunity to earn their allowed return on rate base levels after new rates
14 go into effect. Therefore, the Commission should reject Witness LaConte's
15 recommendation on this issue.

16 *Coal Ash Deferral*

17 **Q. DO YOU AGREE WITH NUCOR WITNESS LACONTE'S**
18 **RECOMMENDED REDUCTION IN THE COAL ASH DEFERRED**
19 **ASSET?**

20 **A.** No, I do not. In the calculation of the deferred balance, the Company
21 included actual amounts spent or plant placed in service through
22 December 2018. Witness LaConte recommends that the deferred balance
23 only include amounts spent through December 2017. This is not

1 reasonable. The amounts spent or placed in service in 2018 are known and
2 measurable and used and useful and there is no reason to delay the
3 recovery of these costs. If the Commission were to delay the recovery, the
4 2018 costs, approximately \$22.5 million, plus carrying costs, would need
5 to be recovered in the next case. The Company has already voluntarily
6 removed approximately \$153 million of deferred storm costs from this
7 proceeding to pursue alternative cost recovery options. To require the
8 Company to also exclude the 2018 coal ash amounts denies the Company
9 timely recovery of prudently incurred, known and measurable costs, and
10 compounds the increase that will be required from customers in the next
11 rate case.

12 *Department of Energy (“DOE”) Litigation*

13 **Q. DO YOU AGREE WITH WITNESS ZARNIKAU’S**
14 **RECOMMENDATION REGARDING THE TREATMENT OF**
15 **CLAIMS REIMBURSEMENTS THE COMPANY HAS RECEIVED**
16 **FROM THE FEDERAL DOE FOR COSTS INCURRED TO STORE**
17 **NUCLEAR SPENT FUEL?**

18 **A.** No, I do not. As Witness Zarnikau notes, the claims reimbursements that
19 the Company has received do not represent a return of the payments DEP
20 made to the DOE to fund a national spent nuclear waste disposal site.
21 Instead, the Company has incurred costs to store spent nuclear fuel
22 because of the DOE’s failure to accept spent nuclear fuel. The types of
23 costs the Company has incurred include the construction of Independent

1 Spent Fuel Storage Installations, the purchase of concrete bunkers and
2 cannisters to house the spent fuel, and the costs of transporting the spent
3 fuel to the storage facilities. These costs have been appropriately
4 accounted for as capital or O&M costs. As the reimbursements were
5 received they were credited to the appropriate capital or O&M accounts to
6 offset the original costs incurred.

7 **Q. HAVE ANY OF THE O&M COSTS FROM ANY OF THE CLAIM**
8 **PERIODS BEEN INCLUDED IN CUSTOMER RATES?**

9 **A.** No. The reimbursements that the Company has received to date are for
10 spent fuel storage costs incurred from 1998-2013. The Company did not
11 file a general rate case during that time period nor have any of those years
12 been used as a test year in a general rate case filing. The Company instead
13 absorbed those costs without any change in customer rates. The Company
14 has appropriately recorded the reimbursements for O&M costs incurred to
15 same O&M accounts. Requiring the Company to instead flow these
16 historical reimbursements back to customers would allow customers to
17 receive a reimbursement for a cost that they never paid.

18 **Q. HAVE ANY OF THE CAPITAL COSTS FROM ANY OF THE**
19 **CLAIM PERIODS BEEN INCLUDED IN CUSTOMER RATES?**

20 **A.** Yes. Capital costs become part of rate base. Rate base is included in the
21 calculation of the revenue requirement in a general rate case. Likewise, the
22 reimbursements for the capital costs incurred have been credited to rate
23 base and become part of that revenue requirement. It is important to treat

1 both the costs and the reimbursements the same way for ratemaking.
2 While there is a timing difference between the time the costs are incurred
3 and the time the reimbursements are received, once the reimbursements
4 are received and credited to rate base, customers are no longer paying
5 anything for those capital investments because the costs have been
6 reimbursed by the federal government. Requiring the Company to instead
7 flow these reimbursements for capital costs back to customers
8 immediately would create customer inequities: today's customers would
9 get a reimbursement for a cost they have not paid, and future customers
10 would pay a cost that has been reimbursed by the federal government but
11 that reimbursement has been given to prior customers in the past.

12 **Q. IS THE COMPANY'S CURRENT TREATMENT OF THE CLAIMS**
13 **REIMBURSEMENTS RECEIVED FROM THE FEDERAL**
14 **GOVERNMENT APPROPRIATE RATEMAKING?**

15 **A.** Yes. As I stated previously, the claims reimbursements are not related to
16 the payments made to the DOE over many years to fund a spent nuclear
17 waste disposal site. The claims reimbursements are instead related to costs
18 the Company has incurred and continues to incur to store spent nuclear
19 fuel. The Company accounts for the costs and the reimbursements in
20 accordance with FERC chart of accounts guidelines and appropriate
21 ratemaking principles.

22 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

23 **A.** Yes.